

JUN 8 1998

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (ACQUISITION AND TECHNOLOGY)
PRINCIPAL DEPUTY UNDER SECRETARY OF DEFENSE (ACQUISITION AND TECHNOLOGY)
DIRECTOR, DEFENSE PROCUREMENT
DEPUTY UNDER SECRETARY OF DEFENSE (ACQUISITION REFORM)
DEPUTY UNDER SECRETARY OF DEFENSE (LOGISTICS)
ASSISTANT SECRETARY OF THE ARMY (RESEARCH, DEVELOPMENT AND ACQUISITION)
ASSISTANT SECRETARY OF THE NAVY (RESEARCH, DEVELOPMENT AND ACQUISITION)
ASSISTANT SECRETARY OF THE AIR FORCE (ACQUISITION)
DIRECTOR, BALLISTIC MISSILE DEFENSE ORGANIZATION
THROUGH: DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Monthly Activity Reports for Management Reform Memorandums
(MRM) 5 and 10

Forwarded for your review are the monthly activity reports for MRMs 5 and 10. The reports are intended to keep you apprised of these high-visibility programs.

Should you have any questions or concerns regarding information contained in the attached reports, please contact Ms. Janice Hawk, (703) 767-3433 for MRM #5, and Ms. Ella E. Studer, (703) 767-3398 for MRM #10.

//s//

TIMOTHY P. MALISHENKO
Major General, USAF
Commander

Attachments

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Management Reform Memorandum #5 (MRM #5)
Disposal of Excess Government-Owned Property
Monthly Report

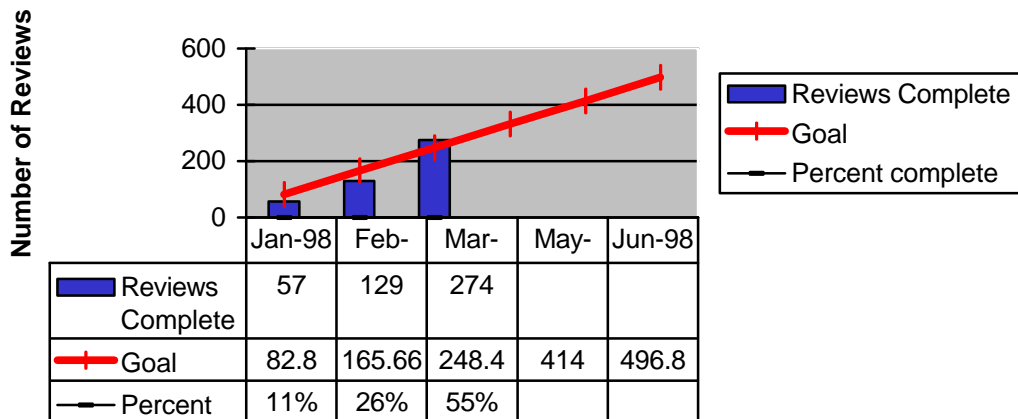
Period Ending March 31, 1998

Purpose

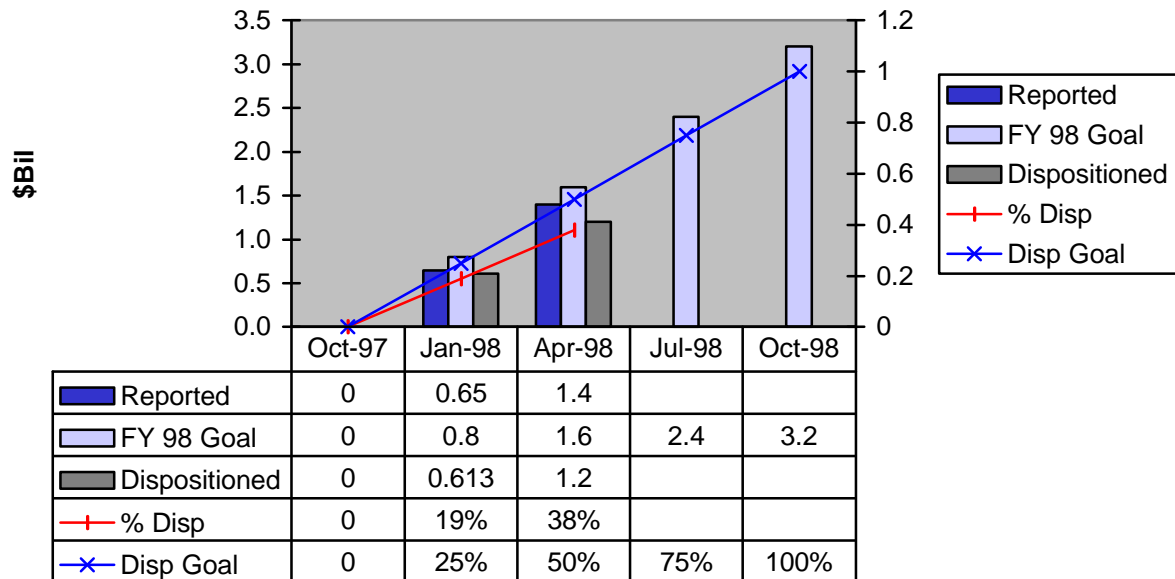
- Dr. Hamre instituted MRM #5 in May 1997 as an effort to dispose of excess Government property in possession of defense contractors. The goal is to dispose of \$7 Billion of property by January 1, 2000. MRM #5 is a joint effort of the Military services and Defense Agencies, with Defense Contract Management Command as the lead agent.

Status

- **Goal #1:** By June 30, 1998, review 100 percent of the contractors' systems with contracts having more than \$3M of government property:
 - 100% of required reviews are scheduled (497 total reviews).
 - 35% of reviews completed as of March 31 (174 reviews complete).
 - Army - scheduled - 76, completed - 16
 - Navy - scheduled - 46, completed - 11
 - Air Force - scheduled - 57, completed - 20
 - DCMC - scheduled - 318, completed - 127
- 100% of required reviews will be accomplished on time.

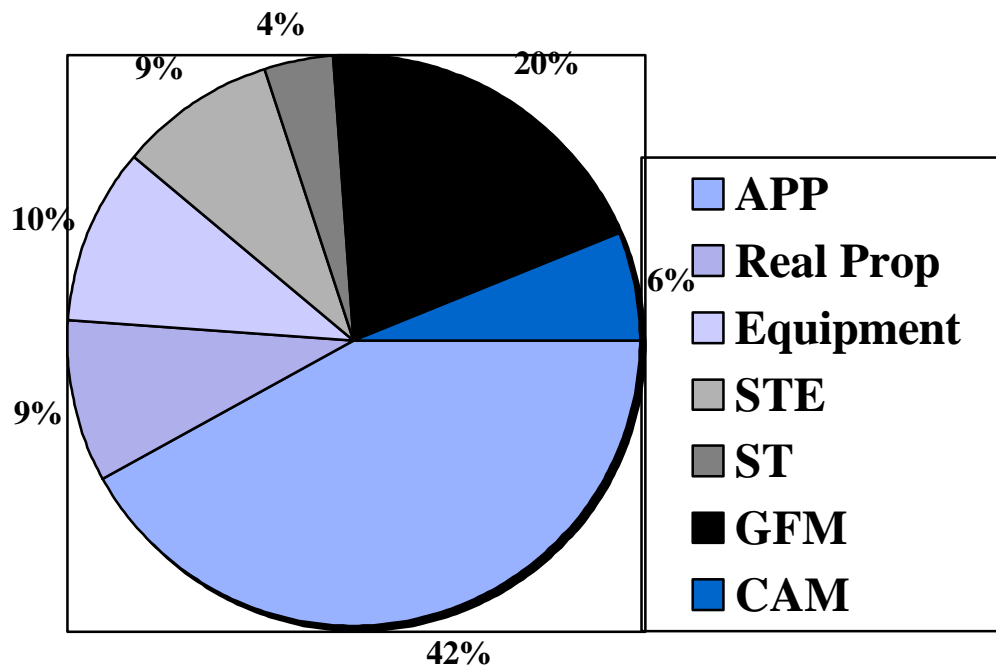


- **Goal #2:** Dispose of \$3.2 Billion of excess property by end of FY 98
- \$739 million reported in 2Q FY 98 (vs. \$550 mil 2Q FY 97)=35% increase.
- Acquisition value of property currently being processed (\$1.66 billion) is highest level in over two years.
- Disposal expected to increase as focus shifts from utilization reviews.



- **Other Disposal Options:**

- Proceeds from sale (Navy lead)
 - Currently, proceeds can only be returned to price or cost of contract, not the program.
 - Navy General Counsel reviewing initiative by the Defense Reutilization and Marketing Service to credit proceeds into a DoD working capital fund.
 - Navy also working with COL Vondra, Acquisition Reform, to resubmit initiative to allow proceeds to be used for modernization and disposal.
- Demilitarization (Air Force lead)
 - Service and DCMC focal points met with OSD demilitarization office representative on February 6, 1998.
 - Draft of proposed new guidance circulated for comment. Army and Air Force comments received.
 - Draft would reduce the demilitarization burden on contractors and the government. It will also speed up the disposal process.
- Government owns \$89B at Contractor Plants-only \$44 Bil (49%), not including APP and Real Property, is within the MRM 5 Universe (top half).



APP - Agency Peculiar Property (Tanks, Engines)
STE - Special Test Equipment (Test Stations)
ST - Special Tooling (Jigs, Dies, Fixtures)
GFM - Government Furnished Material (Nuts, Bolts, Etc)
CAM - Contractor Acquired Material (Nuts, Bolts, Etc)
Equipment - (Computers, Lathes, Milling Machines, Etc.)
Real Property - (Land, Buildings)

UPDATE:

- Acquisition Reform III Day
- MRM #5 was briefed as a specific topic during workshops in DCMC.
- Briefed Mr. Houley, (MRM #5 Disposal of Excess Government-Owned Property on May 15, 1998)
- Briefed purpose and status of MRM #5 to DCMC and Contractor representatives at the National Property Management Association (NPMA) conference June 1-5 in Santa Fe, New Mexico.

OTHER ISSUES:

- Navy has requested a moratorium until July 31, 1998 to put screening processes in place for Special Tooling/Special Test Equipment. The purpose is to ensure that adequate screening is accomplished and a proper disposal determination is made.

Management Reform Memorandum # 10 (MRM #10)
Redesigning Department of Defense Source Acceptance Policies and Procedures
Monthly Report
Period Ending March 31, 1998

Purpose:

- Perform a comprehensive reassessment of current source acceptance policies and procedures. Identify and eliminate policies and procedures that lead to the performance of unnecessary source inspection. Develop alternative methods of assuring quality.

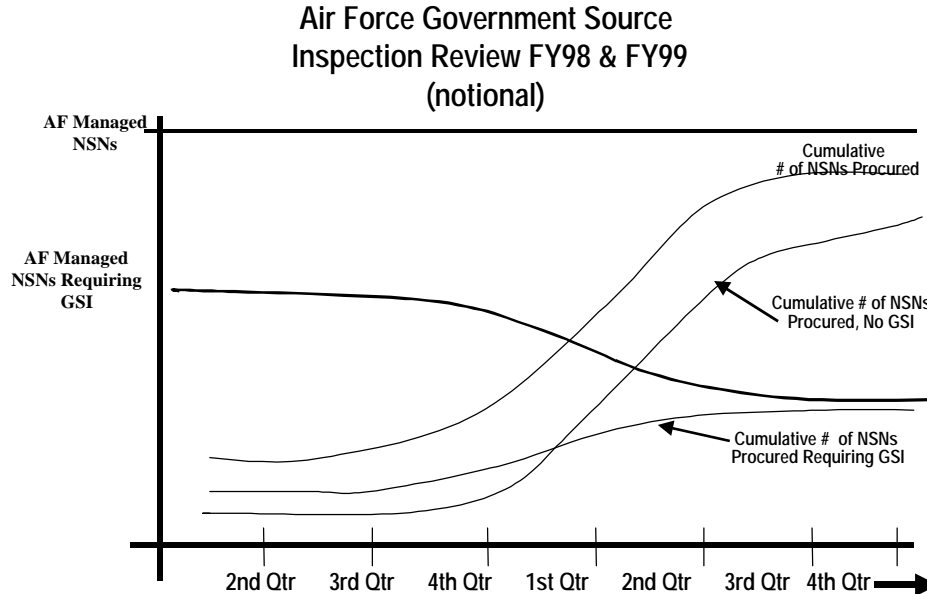
Overall Summary

Air Force:

- **Current priorities are in two main areas:** 1) continued support of the DoD PAT on Government Source Inspection (GSI) , and 2) monitoring of Air Force field review of items requiring GSI.
- **Air Force field review of GSI:** AFMC/CC, General Babbitt, tasked AFMC on December 3, 1997 to report on GSI review progress quarterly and ensure the engineering functions are engaged in the review process.
 - **Slow start.** Initial review efforts began slowly until the process at each center was established. Corrective action is in place to ensure an improvement in 3rd quarter FY 98 responses from the field.
 - **Action Needed.** There has been no breakout of consumable item reviews in the reports submitted from centers thus far. AFMC/EN will provide information on these items in subsequent quarterly reports.
 - **Will focus effort to meet goal.** To meet the 100 percent review goal for all planned FY 98 and FY 99 buys, AFMC centers will review each active item's GSI requirement as actual procurement of that item occurs. This will focus our manpower on areas with possibilities for near term cost savings and prevent wasting resources on items not actually procured.
- **Air Force will improve GSI process.** Improvements to the Air Force GSI process clearly should not be limited to this single reporting task. There are several key areas that must be thoroughly assessed for their influence on and interaction with GSI requirements. These include: performance based business environment, implementation of proposed flow-down of GSI requirements listed above, source qualification, consistency of GSI requirements among centers and services, and the restructuring of AFMC product and logistics centers into centers

of excellence. HQ AFMC/ENPP is in the process of creating a management approach to GSI that will fully address these global issues.

- **Future AFMC reporting format.** The following notional chart represents the format of future AFMC reports. The centers began their official counts within the 3 month reporting cycle. Therefore, numbers reported do not reflect all procurements for 2nd quarter FY 98. One hundred percent of all items procured were reviewed once the centers began review of GSI requirements.



Army:

- **Army has developed and implemented plan.** Each Army buying activity has developed and implemented a process for evaluating all contracts that require GSI. In general, GSI will be waived for all spare and repair contracts that are awarded to the prime item contractors, restricted source list contractors, and for all contracts under \$10,000. Those contracts awarded competitively will be evaluated individually to determine if GSI is required. This new process will also ensure that items are not overcoded.

Navy:

- **Review ahead of schedule.** The number of supply items projected for procurement in FY 98 and FY 99 requiring GSI is 24,454. Of these, 14,006 or 57 percent have been reviewed to date. (This exceeds the mandated completion rate of 30 percent required by March 1998).
- **System improvement submitted.** The Naval Inventory Control Point (NAVICP) submitted a change request to modify the current provisioning system, the Interactive Computer Aided Provisioning/Ships Provisioning System for Ships and Submarine, to limit automated GSI to only Level 1/Subsafe items. Estimated completion date for the modification is April 1998.

- **Training Course developed.** NAVICP developed a one-hour training course, which was given to equipment specialists in February 1998. The course outlines the recent class deviation to Federal Acquisition Regulation (FAR) 46.402, deleting the requirement to invoke GSI when a higher level contractor quality requirement is included or when material is destined for overseas shipment.
- **Class deviation on homepage.** NAVSUP posted policy letter 4200 Ser 21B2/8114 98-39 SA98-14 dated January 22, 1998, to the NAVSUP's homepage. The policy letter outlined the class deviation to FAR 46.402 and directed compliance by Navy contracting personnel to support the DoD initiative to eliminate unnecessary GSI and reduce overall acquisition costs.

Defense Contract Management Command (DCMC):

- **DCMC AR Day III.** MRM #10 was added as a specific Acquisition Reform Week III topic that was briefed at breakout session throughout DCMC.
 - Video and facilitation training materials were completed.
- **Status briefing.** On March 23, 1998, Dr. Hamre, Deputy Secretary of Defense, and the Senior Acquisition Executives were briefed on the status of MRM #10.

Marine Corps: No comments.

Defense Logistics Support Command (DLSC):

- **DLSC ahead of schedule.** DLSC is aggressively performing reviews of 100 percent of buys previously coded source inspection. In addition, the DLSC Centers are performing mass changes of NSN categories that obviously do not require source inspection, i.e., commercial items, prime vendor contracted items, items under qualification programs, and non-weapon system items.
- **DLSC finding and fixing problems.** During the supply item review, DLSC found that some items that were previously determined as not requiring source inspection were being changed by contracting officers to source during the award process. The numbers of this occurrence are much larger than previously estimated. DLSC is researching the area to determine the causes. Some anecdotal reasons that have been given are:
 - FMS considerations and Basic Ordering Agreements may require source.
 - Contractors are asking for source inspection because they get paid faster.
 - Contractors think they have some protection such as, they can blame DCMC if there are defects, and they like to have DCMC in plant to help them out.
- DLSC is researching whether the Centers are following the current policy of negotiating such requests with adequate consideration flowing to the Government, on a case-by-case basis for the added cost of performance of unnecessary Government quality assurance at source.

- The following is the 2nd QTR FY 98 figures where buys were changed from destination inspection and acceptance to source inspection per contractor request.

Center	Total # of Buys	# of Buys Changed	% Changed to Source
DSCC	97,578	12,741	13.05
DSCR	72,796	4,334	5.95
DISC	69,392	4,799	6.91
DSCP	809	90,959	.89
DLSC Totals	330,725	22,683	6.86

Overcoding Issue:

Air Force:

- AFMC/LGIR presented response to action item dealing with flow down of GSI requirements from System Program Offices (SPO) to Air Logistic Centers (ALC) at DoD PAT meeting, March 31, 1998. GSI requirements have increased in the past as system is passed down to ALCs. Methods to prevent this include the following:
 - Utilization of SPO GSI decision guides at the ALC
 - Notify SPO if GSI requirements increase 10-20 percent at the ALCs
 - Train field on ways to avoid increases in GSI requirements
- Implementation of these suggestions will be included in the GSI management approach currently being developed by HQ AFMC/ENPP.

Army:

- See summary comments.

Marine Corps:

- No report on progress.

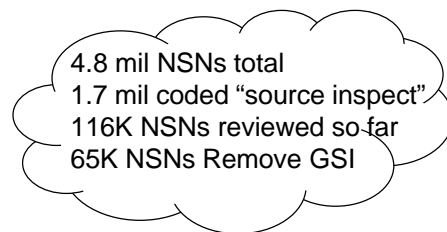
Navy:

- During weapon system design, development, and production, Navy program offices are required to develop, test and analyze their systems to ensure they can meet the requirements mandated by DoD. These tests may include Failure Modes, Effects and Criticality Analysis (FMECA), single point failure analysis, interface requirements analysis data from the integrated test programs, etc. From this data, inspection requirements are generated depending on the criticality of the items. After the system is deployed, responsibility for management of spares is normally transferred to the Navy Inventory Control Points (ICP).
- The potential for an item to be overcoded may exist due to the following reasons:
 - To ensure that the integrity and quality of Navy reprocurments, programmatic, technical, and inspection requirements are coordinated between the program offices, engineering agents, and the ICPs. These inspection requirements are normally coordinated with the ICPs. However, some inspection requirements may not get communicated to the ICPs; in these cases, the ICP engineering personnel will perform a technical review of the items to

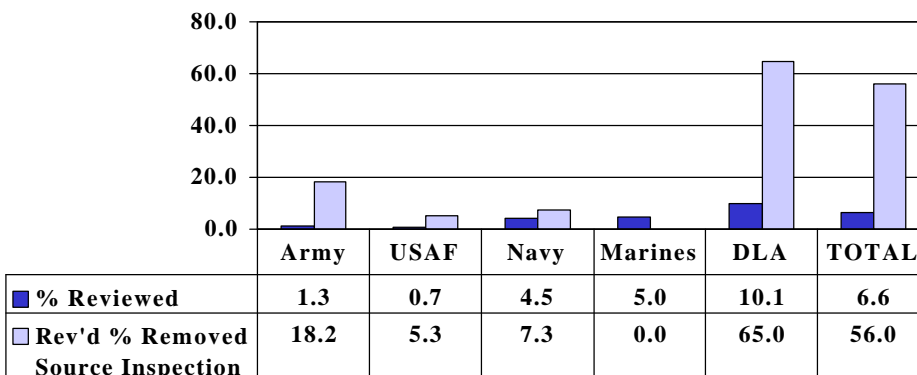
be procured to determine if GSI should be required. This may potentially result in some items being coded for GSI that were not originally designated as such.

- During development and production, the prime contractor is responsible for the quality of the system being built; therefore, they are also responsible for the quality of their suppliers' products. To ensure this, the prime contractor may certify its suppliers, perform receiving inspections, and/or conduct source inspections. During reprocurement of spares by the ICPs, the original manufacturer of the items being reprocured is often times not the same supplier for the spares. Depending on the criticality of the hardware, these new suppliers may require GSI. Further, items that were previously inspected by the prime contractor as critical items, in most cases, now require GSI. This leads to the perception of increased inspection requirements.
- **Action to resolve problem:**
 - As part of the Under Secretary Defense (Acquisition & Technology) tasking by MRM #10, all Navy FY 98 and FY 99 procurements coded for GSI are currently being reviewed by the Navy to determine if GSI is appropriate. At the same time the methodology used by the ICPs to code items for GSI is in the process of being reviewed/revised by the Navy. Therefore, no additional tasking is needed to ensure Navy items are not overcoded for GSI.

Government Source Inspection (GSI) Supply Item Review Data Through March 31, 1998



NSN Review Status Update (31 Mar 98)



- Most NSN are being reviewed "as procured"
- Not all NSNs are active--may never be reviewed
- Numbers include mass computer changes of NSN categories.

Air Force:

AFMC	2nd QTR 1998	3rd QTR 1998	4th QTR 1998
Number Unchanged	2,317		
Number Changed	129		
% Changed to Destination	5.3		
Total Reviewed	2,446		

Army:

Army	2nd QTR 1998	3rd QTR 1998	4th QTR 1998
Number Unchanged	1,486		
Number Changed	331		
% Changed to Destination	18.2		
Total Reviewed	1,817		

Marine Corps:

Marine Corps	2nd QTR 1998	3rd QTR 1998	4th QTR 1998
Number Unchanged	10		
Number Changed	0		
% Changed to Destination	0		
Total Reviewed	10		

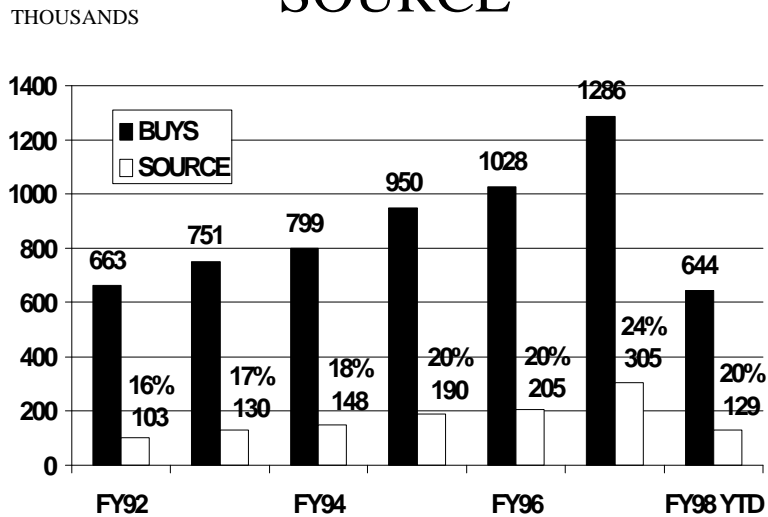
Navy:

* Level 1/Subsafe	2nd QTR 1998	3rd QTR 1998	4th QTR 1998
Number Unchanged	4,763		
Number Changed	0		
% Changed to Destination	0		
Total Reviewed	4,763		
** Nuclear Reactor Material			
Number Unchanged	6,750		
Number Changed	0		
% Changed to Destination	0		
Total Reviewed	6,750		
Submarine HOE			
Number Unchanged	0		
Number Changed	890		
% Changed to Destination	100		
Total Reviewed	890		
Aviation			
Number Unchanged	1,465		
Number Changed	138		
% Changed to Destination	8.6		
Total Reviewed	1,603		
Navy Totals			
Number Unchanged	12,978		
Number Changed	1,028		
% Changed to Destination	7.3		
Total Reviewed	14,006		

- * Source inspection retained in accordance with NSLC letter 4400 Ser N44/00864 dated December 12, 1997.
- ** Source inspection retained in accordance with NAVICP letter 4400 Ser 874/02 dated January 29, 1998.

Defense Logistic Support Command (DLSC):

DLA FY TOTAL BUYS vs SOURCE



DSCC-Columbus:

Construction	2 nd QTR 1998	3 rd QTR 1998	4 th QTR 1998
Number Unchanged	11,805		
Number Changed	2,003		
% Changed to Destination	14.5		
Total Reviewed	13,808		
Electronics			
Number Unchanged	2,118		
Number Changed	3,142		
% Changed to Destination	59.7		
Total Reviewed	5,260		
DSCC Totals			
Number Unchanged	13,923		
Number Changed	5,145		
% Changed to Destination	27.2		
Total Reviewed	19,068		

DISC - Philadelphia:

DISC	2nd QTR 1998	3rd QTR 1998	4th QTR 1998
Number Unchanged	1,660		
Number Changed	179		
% Changed to Destination	9.7		
Total Reviewed	1,839		

DSCR – Richmond:

DSCR	2nd QTR 1998	3rd QTR 1998	4th QTR 1998
Number Unchanged	17,856		
Number Changed	7,471		
% Changed to Destination	29.5		
Total Reviewed	25,327		

DSCP - Philadelphia:

Subsistence	2nd QTR 1998	3rd QTR 1998	4th QTR 1998
Number Unchanged	3		
Number Changed	170		
% Changed to Destination	98.3		
Total Reviewed	173		
Medical			
Number Unchanged	332		
Number Changed	5,996		
% Changed to Destination	94.7		
Total Reviewed	6,328		
Clothing & Textiles			
Number Unchanged	156		
Number Changed	35		
% Changed to Destination	18.3		
Total Reviewed	191		
DSCP Totals			
Number Unchanged	491		
Number Changed	6,201		
% Changed to Destination	92.7		
Total Reviewed	6,692		

NOTE: All medical item NSNs have been reviewed.